

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)  
MAUI ELECTRIC COMPANY, LIMITED )  
For Approval of Rate Increases and )  
Revised Rate Schedules and Rules. )

DOCKET NO. 2006-0387

ORDER NO. 23188

Filed January 11, 2007  
At 11 o'clock A.M.

for Bruce K. Kane  
Chief Clerk of the Commission

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ORDER

By this Order, the commission approves MAUI ELECTRIC COMPANY, LIMITED's ("MECO") request to utilize a 2007 calendar test year in its forthcoming application for a general rate increase.

I.

Background

MECO is a Hawaii corporation and a public utility as defined by Hawaii Revised Statutes ("HRS") § 269-1.<sup>1</sup> It is engaged in the production, purchase, transmission, distribution, and sale of electricity on the islands of Maui, Molokai, and Lanai in the State of Hawaii.

On September 22, 2006, MECO filed a notice of intent to file an application for a general rate increase ("Rate Increase Application") on or after December 1, 2006, based on a 2007

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<sup>1</sup>MECO was initially organized under the laws of the Territory of Hawaii on or about April 28, 1921.

calendar year test period ("Notice of Intent"), pursuant to Hawaii Administrative Rules ("HAR") § 6-61-85.<sup>2</sup>

A.

MECO's Motion for Waiver

On December 19, 2006, MECO filed a Motion for Approval of Test Period Waiver ("Motion for Waiver") seeking commission approval to use a calendar year 2007 test period in support of its Rate Increase Application to be filed on or after January 1, 2007 (but before June 30, 2007).<sup>3</sup>

Specifically, MECO requests a waiver of the test year requirement in HAR § 6-61-87(4). Without a waiver of this provision, the test year for a rate increase application filed within the first six (6) months of 2007 would be a split test year encompassing July 1, 2007 through June 30, 2008.

According to MECO, "[f]ailure to grant the requested waiver would impose a financial hardship on MECO, and would be unjust or unreasonable."<sup>4</sup> MECO asserts that use of a split test year would require it to "incur significantly higher expenses and resource commitments to develop and compile demand forecasts, financial projections and results based on a split test year, and complicate analysis and evaluation of MECO's case by other

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<sup>2</sup>The Notice of Intent was concurrently served on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"), an ex officio party to all matters before the commission pursuant to HRS § 269-51 and HAR § 6-61-62, and on the mayor of the County of Maui.

<sup>3</sup>MECO filed its Motion for Waiver pursuant to HAR §§ 6-61-41 and 6-61-92. MECO does not request a hearing on its motion.

<sup>4</sup>See Motion for Waiver at 4.

parties" since its budgeting, forecasting, and financial reporting processes are based on a calendar year.<sup>5</sup> In addition, due to, in large part, the Maalaea Power Plant Unit 18 going into service in October 2006, which represents an investment of over \$60 million, and higher operation and maintenance expenses, MECO states that it would be difficult, if not impossible, for it to earn its allowed rate of return in 2008 without rate relief prior to or near the beginning of 2008. As such, MECO states that it will experience financial hardship without a waiver of the rule since it would need to either incur the financial and resource burdens of managing a split test year or delay the filing of its application.

According to MECO, it did not file for a waiver of HAR § 6-61-87(4) when it initially filed its Notice of Intent since it had intended to file its application before the end of 2006. However, the November 2006 anticipated filing of Hawaiian Electric Company, Inc.'s general rate increase application was delayed until December 2006 due to procedural changes in Docket No. 05-0315 (Hawaii Electric Light Company, Inc.'s general rate increase docket) and the initiation of Docket No. 2006-0431 (Outage Proceeding). Given that the filing of two electric rate increase proceedings in the same month would likely severely strain the resources of the commission, the Consumer Advocate, and MECO, MECO decided to extend the filing of MECO's Rate Increase Application from December 2006 until the

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<sup>5</sup>Id.

first half of 2007.<sup>6</sup> MECO states that it anticipates filing its Rate Increase Application in February 2007 and that it reached certain agreements with the Consumer Advocate to facilitate the filing and review of materials related to its Rate Increase Application, as set forth on page 6 of its Motion for Waiver. According to MECO, the Consumer Advocate does not object to approval of its request.<sup>7</sup>

B.

Consumer Advocate's Response

On December 21, 2006, the Consumer Advocate filed its response to MECO's Motion for Waiver ("Response") in which it states that it does not oppose MECO's request to use a 2007 calendar test year.<sup>8</sup> According to the Consumer Advocate, MECO's use of a 2007 calendar test year should allow for a more efficient processing of the rate increase application, as MECO's records and budgeting processes are on a calendar year basis. It also stated, among other things, that "using the 2007 calendar year as the test year will allow for greater certainty of the operating results upon which the test year revenue requirement is based."<sup>9</sup> Moreover, the Consumer Advocate notes that use of a forecasted test year is a means to mitigate regulatory lag

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<sup>6</sup>MECO also cites to other instances where the commission has granted similar motions to waive the test year requirement. Id. at 7 (citing Docket Nos. 05-0315, 94-0298 and 7579).

<sup>7</sup>Id. at 6.

<sup>8</sup>See Consumer Advocate's Response at 3.

<sup>9</sup>Id. at 2.

impacts during high inflationary times and that "use of the 2007 calendar test year should not be deemed to be a factor that contributes to regulatory lag" since "[r]ecent experience has indicated that we are not in a high inflationary period[.]"<sup>10</sup>

## II.

### Discussion

HAR § 6-61-87(4) states, in relevant part:

For an application by a public utility with annual gross revenues from its public utility business of \$2,000,000 or more for a general rate increase or to alter any classification, contract, practice, or rule as to result in a general rate increase to be considered a completed application under section 269-16, HRS, in addition to meeting the requirements in section 6-61-86, must contain the following:

. . . .

(4) A summary of estimated earnings (rate of return summary) on a depreciated rate base for a twelve month period (test year). The adjusted or estimated results shown for the test year shall be on a consistent basis reflecting normalized conditions to the very best estimate possible. The test year shall be a forward test year, determined as follows:

(A) If an application is filed within the first six months of any year, the test year shall be from July 1 of the same year through June 30 of the following year; or

(B) If an application is filed within the last six months of any year, the test year shall be from January 1 through December 31 of the following year;

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<sup>10</sup>Id.

HAR § 6-61-87(4). HAR § 6-61-92, however, allows the commission to modify the requirements of Subchapter 8 of HAR Chapter 6-61, which includes HAR § 6-61-87(4), if the requirement would "impose a financial hardship on the applicant or be unjust or unreasonable."

Here, the commission finds that a waiver of the provisions of HAR § 6-61-87(4) is warranted. Use of a split test year, as required by HAR § 6-61-87(4), would likely cause MECO to incur higher financial expenses and resource burdens since MECO uses a calendar year for forecasting and financial reporting purposes. In addition, use of a split test year would complicate the analysis and evaluation of MECO's rate case by other parties, including the Consumer Advocate and the commission.<sup>11</sup> Moreover, historically, utilities have been allowed to recover reasonable rate case application expenses in rate case proceedings. Thus, any additional costs incurred by MECO in requiring it to advance a proceeding with a split test year could negatively impact MECO's ratepayers.

Based on the above, the commission finds that the application of the test year requirement in HAR § 6-61-87(4) would impose a financial hardship on MECO and, under the circumstances presented, be unreasonable. Thus, the commission concludes that MECO's Motion for Waiver should be approved, pursuant to HAR § 6-61-92.

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<sup>11</sup>The commission notes that MECO was allowed to utilize a 1999 calendar test year during its last rate case proceeding through a waiver of HAR § 6-61-87(4). See In re Maui Electric Company, Limited, Docket No. 97-0346, Order No. 16031, filed on October 20, 1997.

III.

Orders

THE COMMISSION ORDERS:

1. MECO's Motion for Waiver, filed on December 19, 2006, is approved.
2. MECO is authorized to utilize a 2007 calendar test year; provided that MECO files its Rate Increase Application on or after January 1, 2007 (but before June 30, 2007).

DONE at Honolulu, Hawaii JAN 11 2007.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By Carlito P. Caliboso  
Carlito P. Caliboso, Chairman

By John E. Cole  
John E. Cole, Commissioner

APPROVED AS TO FORM:

Ji Sook Kim  
Ji Sook Kim  
Commission Counsel

2006-0387.eh



CERTIFICATE OF SERVICE


I hereby certify that I have this date served a copy of the foregoing Order No. 23188 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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DATED: JAN 11 2007